

Message Text

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AMEMBASSY LUXEMBOURG

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AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: NEW PRICE CONTROLS ON CONSUMER GOODS

BEGIN SUMMARY. ADDITIONAL PRICE CONTROLS ON A SELECTED
GROUP OF CONSUMER GOODS WERE ANNOUNCED IN PARLIAMENT BY
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PRICES AND CONSUMER SECRETARY SHIRLEY WILLIAMS. THE CON-

TROLS ARE THE FRUIT OF MONTHS OF COMPLICATED NEGOTIATIONS BETWEEN THE GOVERNMENT, THE PRIVATE SECTOR AND NATIONALIZED INDUSTRY. LARGELY ANTICIPATED BY THE AFFECTED PRODUCERS, THE CONTROLS' MAJOR IMPACT WILL BE POLITICAL RATHER THAN ECONOMIC. END SUMMARY.

1. THE LONG-AWAITED ANNOUNCEMENT OF A 5 PERCENT LIMIT FOR PRICE INCREASES ON A SELECTED LIST OF BASIC CONSUMER GOODS CAME IN A FEBRUARY 11 PARLIAMENTARY INTERVENTION BY MRS. SHIRLEY WILLIAMS, THE PRICES SECRETARY. THE CONTROLS WILL LAST FROM MID-FEBRUARY THROUGH MID-AUGUST AND WILL AFFECT SOME 60 CATEGORIES OF GOODS AND SERVICES ACCOUNTING FOR SOME 15 TO 20 PERCENT OF CONSUMER EXPENDITURE. MOST FOOD ITEMS ARE NOT COVERED ALTHOUGH BREAD, MILK, SUGAR, TEA AND BEER WILL BE SUBJECT TO THE CONTROLS. LIMITING PRICE INCREASE OF GOODS AND SERVICES PRODUCED BY NATIONALIZED INDUSTRIES PROVED TO BE VERY DIFFICULT. IN THE END ELECTRICITY, COAL AND STEEL, AND SOME POSTAL SERVICES WERE EXCLUDED.

2. ITEMS COVERED BY THE SCHEME WILL BE IDENTIFIED WITH SPECIAL TAGS (A RED TRIANGLE). COMPETITIVE PRESSURES ARE EXPECTED TO BE THE MAIN MEANS OF ENFORCING THE SCHEME. CONSUMERS WILL BE ABLE TO REPORT SUSPECTED VIOLATIONS TO THE PRICE COMMISSION FOR INVESTIGATION.

3. COMMENT. THE REAL ECONOMIC IMPACT OF THE SCHEME WILL BE MINIMAL. THE ITEMS COVERED CENTER ON MAJOR APPLIANCES, SMALL HOUSEHOLD ITEMS AND TOILETRIES WHERE DEMAND IS ALREADY SOFT AND PRICE INCREASES ABOVE THOSE PERMITTED BY THE SCHEME WERE UNLIKELY. IN ADDITION, SOME MANUFACTURERS OF ITEMS COVERED BY THE SCHEME HAVE ALREADY INCREASED THEIR PRICES IN ANTICIPATION. THE 1.7 PERCENT INCREASE IN THE JANUARY WHOLESALE PRICE INDEX FOR FINISHED GOODS IS AN INDICATION OF SUCH BEHAVIOR. IN EFFECT, THE 5 PERCENT SCHEME IS LARGELY POLITICAL IN MOTIVATION. IT IS AN INTEGRAL PART OF THE GOVERNMENT EFFORT TO DEMONSTRATE TO THE TRADE UNIONS THAT THEIR SUPPORT FOR THE PRESENT INCOMES POLICY IS NOT IN VAIN. SEEN IN THIS LIGHT, THE SCHEME IS NOT LIKELY TO RESULT IN ANY LASTING ECONOMIC
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DISTORTIONS. THE CONFEDERATION OF BRITISH INDUSTRY AND THE RETAILERS ASSOCIATION HAVE NEGOTIATED WITH THE GOVERNMENT OVER A PERIOD OF MONTHS. THE COMPROMISE THAT HAS EMERGED WILL CAUSE LITTLE DAMAGE TO RETAILERS WHOSE PROFIT MARGINS ARE ALREADY QUITE THIN, WILL BRING LITTLE REAL BENEFIT TO THE AVERAGE CONSUMER, BUT WILL PERMIT BOTH THE GOVERNMENT AND THE UNIONS TO SCORE RHETORICAL POINTS BEFORE THEIR VARIOUS CONSTITUENCIES.

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